

Message Text

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ACTION EA-09

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INFO AMEMBASSY BANGKOK
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AMEMBASSY NEW DELHI
AMEMBASSY RANGOON

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E.O. 11652: N/A
TAGS: ENRG, SN
SUBJECT: REGIONAL OIL INDUSTRY PLUNGE HITS SINGAPORE

SUMMARY: A SIGNIFICANT DOWNTURN IN REGIONAL OIL EXPLOR-
ATION HAS BEEN EVIDENT IN SINGAPORE SINCE THE BEGINNING
OF THE YEAR. THE CLOUD OF PESSIMISM HANGING OVER THE
U.S. OIL COMMUNITY HERE DARKENED FURTHER IN JUNE AND JULY,
AS EXPLORATION IN INDONESIA CAME TO ALL BUT A GRINDING
HALT. MANY OBSERVERS IN SINGAPORE FEEL THAT THE ECONOMIC
COSTS TO SINGAPORE AND THE REGION WILL BE SUBSTANTIAL
AND LONG-LASTING. END SUMMARY.

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1. THE LAST YEAR HAS BEEN ALL DOWNHILL FOR MANY OF THE

150 U.S. OIL COMPANIES BASED IN SINGAPORE, AS THE BARGAINING TABLE BECAME THE NEW AREA OF EXPLORATION IN SOUTHEAST ASIA. UNTIL MID-1975, THE INDUSTRY'S MOOD WAS BUOYANT, AND EVEN IF THE REGION LACKED "BIG" OIL, IT OFFERED A LIVELY PLAY TO ALL COMERS. THEN CAME THE MANAGEMENT SHARES AMENDMENT IN MALAYSIA, AND THE END OF EXPLORATION PROGRAMS THERE. WHILE THERE DEVELOPMENTS DAMPENED SOMEWHAT THE SINGAPORE OIL COMMUNITY'S ENTHUSIASM FOR THEIR PROSPECTS IN THE REGION, IT WAS GENERALLY FELT THAT MALAYSIA WOULD EVENTUALLY WORK SOMETHING OUT WITH THE PRODUCERS, AND THAT LONG-TERM PROSPECTS WERE GOOD.

2. BUT THE MOOD IN THE "PATCH", FED BY NEWS OF PERTAMINA'S NEW DEMANDS, HAS DETERIORATED DRAMATICALLY OVER THE LAST FEW MONTHS. A THICK CLOUD OF UNMITIGATED GLOOM NOW HANGS OVER THE BAR OF THE PETROLEUM CLUB AT THE TOP OF THE IMPERIAL OBEROI HOTEL. THE SINGLE REASON IS THAT BUSINESS IS BAD, AND PROSPECTS ARE ONLY GETTING WORSE. RUMORS ABOUND, AND THERE IS ENDLESS DISCUSSION OF BOTH THE CAUSES AND EFFECTS OF THE CURRENT SLUMP.

3. THERE IS GENERAL AGREEMENT THAT THREE SEPARATE DEVELOPMENTS HAVE COINCIDED TO BRING THE INDUSTRY TO ITS PRESENT NADIR. FIRST, THE MAJOR OIL COMPANIES APPEAR TO BE ALLOCATING LESS FOR EXPLORATION IN THE REGION. THIS DEVELOPMENT REFLECTS BOTH A COLLECTIVE CORPORATE JUDGEMENT THAT SCARCE DEVELOPMENT FUNDS CAN BETTER BE EMPLOYED ELSEWHERE, AND THE GENERAL WEAKNESS IN WORLD-WIDE PETROLEUM DEMAND. SECOND, BECAUSE OF ECONOMIC NATIONALISM ON THE PART OF PRODUCER COUNTRIES, SOVEREIGN RISK IN THE REGION IS SEEN AS HAVING INCREASED, AND PROFIT POTENTIAL DECREASED. FOR EXAMPLE, THE RECENT REMOVAL OF THE COST RECOVERY PROVISION FROM THE INDONESIAN PRODUCTION SHARING CONTRACT (PSC) ELIMINATED A MAJOR ATTRACTION TO INVESTORS. THIRD, NEW OIL COMPANY ACTIVITY HAS BEEN DEPRESSED BY TAX AND POLITICAL DEVELOPMENTS IN THE UNITED STATES. THESE INCLUDE DISCUSSION OF VERTICAL DIVESTITURE, A REDUCTION IN DEPLETION ALLOWANCES, AND THE RECENT IRS RULING ON ROYALTIES.

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4. IN ADDITION TO THESE GENERAL CAUSES, OILMEN HERE ARE QUICK TO POINT AN ANGRY ACCUSATORY FINGER AT A VARIETY OF INDIVIDUALS AND INSTITUTIONS. CHIEF VILLAINS ARE TUNKU RAZALEIGH IN MALAYSIA (FOR KEEPING THE FACTS FROM HUSSEIN) AND THE WORLD BANK AND PRICE WATERHOUSE IN INDONESIA (FOR GIVING "BAD ADVICE"). THE GOI IS GENERALLY CONDEMNED FOR LETTING ITSELF GET "ROBBED BLIND" BY CERTAIN PERTAMINA OFFICIALS, AND NOW ATTEMPTING TO GET

IT BACK FROM THE OIL COMPANIES.

5. PRESENT EFFECTS OF THE SLOWDOWN ON SINGAPORE ARE NOT IMMEDIATELY EVIDENT TO THE CASUAL OBSERVER. SINGAPORE'S FOUR RIG YARDS APPEAR TO BE THRIVING, AND ONLY A FEW OF THE SMALLER OILFIELD SERVICE, SUPPLY, OR DRILLING COMPANIES HAVE CLOSED THEIR DOORS. HOWEVER, INDUSTRY SOURCES ESTIMATE THAT EXPLORATION ACTIVITY IN THE REGION HAS FALLEN OFF APPROXIMATELY 30 PERCENT IN THE LAST YEAR. EXPLORATION OFFSHORE INDONESIA IS MUCH HARDER HIT; A SPOT CHECK OF PRODUCERS AND DRILLING COMPANIES IN SINGAPORE INDICATES THAT MOST HAVE SHUT DOWN PRODUCTION; MANY HAVE LAID UP THEIR RIGS IN SINGAPORE WATERS. THERE ARE AT LEAST TWENTY RIGS NOW IDLE HERE. INDUSTRY SOURCES SEE ONLY TWO OR THREE RIGS OPERATING OFFSHORE INDONESIA BY THE END OF THE YEAR. IN ADDITION TO RIGS, SOME PRODUCERS HAVE ALSO CANCELLED CONTRACTS FOR MILLIONS OF DOLLARS WORTH OF ORDERS FOR PIPELINE, PRODUCTION PLATFORMS, AND OTHER OILFIELD EQUIPMENT.

6. LIKELY TO BE HARDEST HIT ARE SINGAPORE'S RIG YARDS. BETHLEHEM HAS ALREADY LAID-OFF 400 MEN, AND WHEN IT COMPLETES TWO RIGS IN PROGRESS BY THE END OF THE YEAR, ANOTHER 1000 MEN MAY HAVE TO BE LAID OFF. NONE OF THE RIG YARDS HAVE GOTTEN A NEW RIG ORDER IN 18 MONTHS, AND HAVE BEEN KEPT WORKING BY ORDERS BOOKED DURING THE 1974 BOOM. UNLESS ALTERNATE STEEL FABRICATION WORK CAN BE FOUND, ALL THE RIG YARDS COULD BE EMPTY IN A YEAR'S TIME. SHIPREPAIR YARDS HAVE ALSO BEEN HIT HARD, PARTLY BECAUSE OF THE SLUMP IN THE TANKER BUSINESS. SMALL SHIPYARDS BUILDING OIL SUPPORT VESSELS (BARGES, TUGS, SUPPLY BOATS) ARE BEGINNING TO FEEL THE PINCH ALSO, AND ONE MODERATE-SIZED YARD HAS CLOSED. MCDERMOTT'S LIMITED OFFICIAL USE

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FABRICATION YARD ON NEARBY BATAM ISLAND MAY HAVE TO LAYOFF ITS 1000 MAN WORKFORCE BY OCTOBER, IF NEW CONTRACTS ARE NOT FORTHCOMING. BROWN AND ROOT HAS ALREADY LAIDOFF 1000 MEN IN INDONESIA.

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R 050300Z AUG 76

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TO SECSTATE WASHDC 5888

INFO AMEMBASSY BANGKOK

AMEMBASSY COLOMBO

AMEMBASSY DACCA

AMEMBASSY JAKARTA

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7. IN ADDITION TO MAJOR YARDS, NUMEROUS LOCAL "SPIN-OFF" INDUSTRIES ARE LIKELY TO BE HARD HIT. RIG BUILDING, FOR EXAMPLE, HAS HAD A TREMENDOUS MULTIPLIER EFFECT ON THE SINGAPORE ECONOMY; OVER ONE HUNDRED SMALL CONTRACTORS ARE OFTEM EMPLOYED IN SMALL FABRICATING JOBS ON A RIG. ACCORDING TO INDUSTRY SOURCES, THE "SPIN-OFF" EFFECT WILL BE EVEN GREATER IN INDONESIA. UNION OIL, FOR EX-AMPLE, EMPLOYED FIFTY INDONESIANS ON EACH RIG, AND ITS SUBCONTRACTORS HAD 1000 MEN ENGAGED IN SEISMIC WORK. PERTAMINA WILL ALSO LOSE SUBSTANTIALY FROM DECREASED DEMAND FOR ITS RIG SUPPLY BOATS. SEVERAL U.S. COMPANIES ARE ALSO ARRANGING TO RELEASE A NUMBER OF LARGE U.S.-FLAG SUPPLY BOATS.

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8. OVERALL SIZE OF THE RESIDENT U.S. COMMUNITY IN SINGAPORE IS ALSO LIKELY TO BE SIGNIFICANTLY REDUCED. THE SINGAPORE-AMERICAN SCHOOL IS CURRENTLY PROJECTING 1976-1977 ENROLLMENT OF 1600 STUDENTS (1900 IN 1975-1976.)

A U.S. COMPANY FORWARDING HOUSEHOLD EFFECTS IN SINGAPORE REPORTS IT IS BUSY AROUND THE CLOCK ARRANGING SHIPMENTS FROM SINGAPORE AND INDONESIA. ALTHOUGH FEW COMPANIES CONTEMPLATE CLOSING THEIR DOORS, MANY ENGAGED IN SALES OF EXPLORATION EQUIPMENT OR SERVICES ARE TRIMMING THEIR EXPATRIATE STAFF. LARGE NUMBERS OF AMCITS ON RIG CREWS BASED IN SINGAPORE HAVE ALSO DEPARTED. PRECISE DIMENSIONS OF EXODUS WILL NOT BE CLEAR UNTIL EARLY FALL.

9. GOS RESPONSE: THE GOS HAS TO DATE NOT MANIFESTED ANY SERIOUS CONCERN OVER THE OFFSHORE INDUSTRY' PROBLEMS. AT A TIME WHEN MOST OILFIELD EQUIPMENT MANUFACTURERS HAVE CUT BACK 50 PERCENT AND MANY SUPPLIERS ARE GETTING NO NEW ORDERS, SINGAPORE IS GOING AHEAD WITH EXPANSION OF ITS LOYANG OILFIELD SUPPLY BASE. AND THE DEVELOPMENT BANK OF SINGAPORE IS STILL CHARGING NINE PERCENT INTEREST ON LOANS TO SHIPYARDS (COMPARED TO FOUR AND ONE HALF PERCENT IN JAPAN). GOS OFFICIALS HAVE, HOWEVER, ON SEVERAL OCCASIONS RECENTLY PRESSED EMBOFFS ON U.S. EMBARGO OF GOODS TO VIETNAM. GOS FEELS THAT SINGAPORE IS THE LOGICAL PLACE FOR VIETNAMESE TO SOURCE OILFIELD EQUIPMENT, AND DOES NOT WANT SINGAPORE TO LOSE OUT (AS IT SURELY WOULD) BECASUE OF EXISTING RESTRICTIONS ON U.S. FIRMS.

10. WHAT OF THE FUTURE? ALTHOUGH AGREEMENTS BETWEEN INDONESIA, MALAYSIA AND THE OPERATORS ARE SLOWLY JELLING, OPINIONS DIFFER WIDELY ON THE TIMING AND SCOPE OF RECOVERY OF THE SOUTHEAST ASIAN OIL INDUSTRY. NEW EXPLORATION DECISIONS WILL BE MADE ON COMPANY BY COMPANY BASIS. IT APPEARS AT THIS TIME THAT COMPANIES WITH LARGE UNDEPRECIATED INVESTMENTS IN INDONESIA (UNION, ARCO) AND WITH DEPOSITS OF SEVEN YEARS OR LESS WILL CONTINUE TO PRODUCE, IN ORDER TO RECOUP THEIR INVESTMENTS. THE TWENTY OR SO SMALLER "NON-PRODUCING" PRODUCERS, HOWEVER, MAY FIND THE NEW ARITHMETIC LESS VIABLE, AND PULL OUT LIMITED OFFICIAL USE

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OVER A PERIOD OF TIME. IN MALAYSIA, THE "RING FENCE" CONCEPT APPEARS TO BE A CONTENTIOUS ISSUE YET TO BE RESOLVED.

11. SOME OILMEN STRESS THAT A KEY QUESTION FOR THE FUTURE IS THE DAMAGED CREDIBILITY OF PRODUCER COUNTRIES. THEY ARGUE THAT OIL-PRODUCING COUNTRIES HAVE PERMANENTLY ALIENATED THE COMPANIES BY CONSTANTLY FIDDLING WITH CONTRACTS. MORE CYNICAL OBSERVERS FEEL, HOWEVER, THAT IF IN TWO OR THREE YEARS THE GOI WILL SWEETEN THE TERMS AND SAY, "BOY, HAVE WE GOT A DEAL FOR YOU", THE U.S. COMPANIES WILL AGAIN JUMP AT THE BAIT. SOME COMPANIES

MIGHT ALSO DECIDE TO CONTINUE MODEST EXPLORATION PROGRAMS
AT MUCH REDUCED PROFIT LEVELS AS A CRUDE SOURCING HEDGE.

12. FOR THE NEXT FEW YEARS, HOWEVER, THE REGIONAL PROSPECT SEEMS TO BE FOR A MUCH REDUCED LEVEL OF EXPLORATION. FOR SINGAPORE'S SHIP AND RIG YARDS, THE DAMAGE HAS BEEN DONE; WITH THE PRESENT EXCESS OF RIGS, LAYOFFS ARE VIRTUALLY CERTAIN TO BE NECESSARY, EVEN WITH A NEW SURGE OF EXPLORATION. CONTINGENCY PLANS TO DIVERSIFY THE SHIPYARDS ARE NOT MEETING WITH MUCH SUCCESS, ALTHOUGH ONE LOCAL YARD, PROMET, HAS WON SEVERAL LARGE DOCK CONSTRUCTION PROJECTS IN THE MIDDLE EAST. MOREOVER, SINGAPORE YARDS ARE NOT AS COMPETITIVE AS THEY NEED TO BE; RECENTLY, NORWAY BEAT OUT SINGAPORE ON A US\$50 MILLION CONTRACT TO MODERNIZE INDONESIA'S INTERISLAND FLEET.

13. SOME INDUSTRY EXPERTS HERE SEE EUROPEAN OPERATORS REPLACING MANY AMERICAN FIRMS IN THE REGION SOON. THE EUROPEAN STATE FIRMS DO NOT HAVE TO SHOW THE SAME RESULTS TO STOCKHOLDERS AS U.S. COMPANIES, AND HAVE FEWER TAX PROBLEMS (FOR U.S. FIRMS, THE ISSUE IS AS MUCH LOSING A TAX RECEIPT AS RECEIVING A SMALLER SHARE OF THE OIL BARREL). IN VIETNAM, THE AUSTRALIANS, CANADIANS, FRENCH, ITALIANS, AND JAPANESE ARE ALREADY POISED TO MOVE IN.

14. A LONGER TERM EFFECT OF THE EXPLORATION HIATUS WILL, OF COURSE, BE A REDUCTION OF REVENUE FOR INDONESIA AND MALAYSIA. MALAYSIA HAS ALREADY LOST 18 MONTHS' PRODUCTION BECAUSE OF ITS STALEMATE WITH EXXON. CONCERN IN AMERICAN LIMITED OFFICIAL USE

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BANKING CIRCLES IN SINGAPORE, HOWEVER, CENTERS AROUND INDONESIA. RECENT PROJECTIONS ON THE INDONESIAN ECONOMY BY BOTH THE WORLD BANK AND BANK INDONESIA ARE CITED TO SHOW THAT INDONESIA IS COUNTING ON A SUBSTANTIAL INCREASE IN NET OIL SECTOR EARNINGS UP TO 1981-1982 TO MEET DEBT SERVICING REQUIREMENTS. THIS INCREASE IN REVENUES IS IN TURN PREDICATED ON PROJECTED INCREASE IN PRODUCTION. HOWEVER, NEGATIVE OIL COMPANY RESPONSE TO THE RECENT GOI PROPOSALS HAS LEFT SOME BANKERS HERE DUBIOUS ABOUT THE GOI'S ABILITY TO INCREASE PRODUCTION AND CONSEQUENTLY TO MEET ITS LONG-TERM DEBT SERVICING OBLIGATIONS.

15. EMBASSY IS SENDING QUESTIONNAIRE TO ALL U.S. OIL INDUSTRY FIRMS IN SINGAPORE TO BETTER DETERMINE IMPACT OF RECENT OIL SECTOR DEVELOPMENTS IN THE REGION ON THEIR OPERATIONS AND ON THE SINGAPORE ECONOMY.
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